



## Growing Local Economies through Entrepreneurship: A Guide for Community Leaders

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As local, state and national economies continue to recover from the Great Recession, community leaders are increasingly interested in how they can create support systems to help entrepreneurs launch, manage and grow their businesses to enhance economic vitality. More and more, attracting, retaining and expanding small businesses is becoming a mainstream economic development strategy. This publication is designed to help local leaders in the government, nonprofit and business sectors better understand key terms and concepts to skillfully navigate this emerging field of policy and practice.

### Who are the Entrepreneurs?

Stated most simply, an entrepreneur is a “*person who organizes and manages any enterprise, especially a business, usually with considerable initiative and risk.*” Entrepreneurs are key drivers in our economy as they account for the majority of net new jobs and innovations. They are also forces for change in our local communities serving as visionaries and risk-takers. Although most entrepreneurial ventures do not have employees, upwards of 80% of Americans profess the belief that entrepreneurs are critical to job creation. (Pages, 2014)

There are a number of frameworks and definitions that seek to capture the broad array of entrepreneurial ventures. However, for practical purposes, most small enterprises fall somewhere within two categories of business types:

- A Small and Medium Enterprise (SME) is sometimes used interchangeably with “Main Street,” “Lifestyle” or “Small Business” entrepreneurs. SME entrepreneurs focus on more local markets but can expand regionally. They rely on jobs performed locally and experience linear growth as they succeed. SME entrepreneurs do not build their enterprises around innovation, even if they embrace aspects of innovation.
- An Innovation-driven Enterprise (IDE) is sometimes used interchangeably with “gazelle” entrepreneurs and “high growth” firms. IDE entrepreneurs aspire to function in global markets and base their enterprise on new technology, processes or business models. They do not have to work in a fixed location and often start by losing money before growing exponentially. (Lyon-Hill et al., 2017)

## **Entrepreneurship & the American Economy**

Small Business Ownership is now the 2nd-greatest source of household wealth after home equity with over 15% of the U.S. Labor-force owning a microbusiness of some form (McKay 2014). In most American cities and counties, the percentage of workers employed by locally- or resident-owned businesses is higher than the percentage of workers employed by non-local businesses or those not owned by residents. Smaller local businesses have been shown to have a more positive effect on local economic performance with contributions to per-capita income growth, employment growth, and change in poverty that exceed that of local businesses (Rupasingha, 2013).

From 2001-2009 – including the 9/11 Crisis and Great Recession - non-local employers cut 7.1 million jobs and America’s largest employers eliminated another 9 million jobs. Meanwhile, America’s smallest firms created 8 million net new jobs and self-employment grew by 3.2 million, a 91% increase (Macke et al., 2014). From 1998-2008, “Stage 2” growth companies, those with 10-99 workers, were responsible for the creation of an estimated 2 million jobs, while large companies lost 3.7 million jobs (Gines, 2014).

## **Virginia’s Entrepreneurial Economy**

Virginia was founded as an entrepreneurial venture of the British Crown in 1607, and it is regularly ranked among the top quartile of states for indicators such as: business climate, low corporate taxes, low unemployment rates, university R&D, STEM jobs and venture capital. Nearly 98% of all companies in the state have fewer than 100 workers; over three-quarters of businesses having fewer than 10 employees.

### *Virginia Companies by Workforce Size*

| Employees     | Companies | % Total | % State GDP |
|---------------|-----------|---------|-------------|
| 1-10          | 194,366   | 77%     | 24%         |
| 11-100        | 52,740    | 21%     | 34%         |
| 101-250       | 3,643     | 1.5%    | 13%         |
| 250+          | 1,368     | 0.5%    | 29%         |
| All Companies | 252,117   | 100.0%  | 100%        |

Sources: Virginia Economic Development Partnership IMPLAN/NETS; Virginia Employment Commission Q4 2016 QCEW; U.S. Bureau of Economic Analysis

Despite small businesses comprising such a large share of companies in the Commonwealth, the picture is somewhat mixed when it comes to the dynamics of the state’s entrepreneurial economy. According to the Kauffman Foundation (2017) national reports on state-level entrepreneurial activity, among the 25 largest states, Virginia comes in:

- 1st for Growth Entrepreneurship (out of 25 largest states)
- 12th for Main Street Entrepreneurship (out of 25 largest states)
- 17th Startup Activity (out of 25 largest states)

At present, there is a notable imbalance among Virginia regions when it comes to supporting scalable high-growth, high-tech firms. The Northern Virginia region is home to the vast majority of such firms while the rest of the state is attempting to catch up.

### **Entrepreneurs and their Communities**

An *Entrepreneurial Ecosystem* is a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organizations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sellout mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment (Lyon-Hill et al, 2017).

There are a number of entrepreneurial ecosystem approaches being implemented in and around Virginia by local government, regional planning organizations, Chambers of Commerce, and other business and economic development organizations. Although a variety of strategies are being pursued, several national models have emerged as having promising application in Virginia. These include, but are not limited to:

- *Business Incubation* – pioneered by Joseph Mancuso at Worcester Polytechnic Institute, a business incubator is an organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections. Business Incubation programs are found in every region of Virginia.
- *Seed Acceleration* – created by Paul Graham at Y Combinator, seed accelerators are fixed-term, cohort-based programs that include seed investment, connections, mentorship, educational components, and culminate in a public pitch event or demo day to accelerate growth. In Virginia, Seed Accelerators are primarily found in Northern Virginia, Richmond, Hampton Roads, and Roanoke.
- *Startup Communities* – advanced by Brad Feld at Techstars, startup communities are places that attract, create and sustain innovative entrepreneurs through various types of academic, funding and support organizations that interact as a system to scale new startup companies. Notable Startup Communities initiatives are active in Southwest Virginia, Southside Virginia, the Shenandoah Valley and other regions across the Commonwealth.
- *Economic Gardening* – originated by Chris Gibbons of the Littleton Colorado Department of Economic Development, economic gardening seeks to grow the local economy from within by helping existing businesses, particularly second-state companies, grow larger by assisting them with strategic issues and providing them with customized research. In Virginia, Economic Gardening has been attempted regionally in Hampton Roads and statewide by the Virginia Economic Development Partnership.

A number of the Commonwealth’s state-level economic development agencies have created new programs based upon these national models. Some of these include grant funding opportunities. Featured activities include:

- *Community Business Launch* - Virginia Dept. of Housing and Community Development
- *Economic Gardening Pilot Program* - Virginia Economic Development Partnership
- *Interise Streetwise MBA* – Virginia Dept. of Small Business and Supplier Diversity
- *GrowthWheel* - Virginia Small Business Development Network

### What Community Leaders Can Do to Overcome Barriers

Entrepreneurship ecosystems are fundamentally local and regional, not necessarily bounded by state borders. In Virginia, the quality and accessibility of available services is an issue, however, the quantity of resources is not a universal concern. U.S. SourceLink, a highly-regarded entrepreneurship program of the University of Missouri-Kansas City, offers a helpful 4-part template for how communities can reduce barriers for entrepreneurship and small business development (Meyers 2015).

| Challenge  | Opportunity  |
|--|--|
| Fragmented small business support community                      | Build on existing investments and raise their visibility                       |
| Not always clear pathways for the business-owner or entrepreneur | Create a collaborative resource networks that include feedback                 |
| No one provider can help every client with everything            | Avoid one-size-fits-all approaches   |
| Resources are not evenly distributed by geography                | Connect entrepreneurs to the resources they need to grow...when they need them |

As the lines between community development, small business development and “traditional” economic development become increasingly blurred, local leaders have more ability to craft solutions that meet the needs of their communities. Growing entrepreneurial ecosystems represents a potentially all-inclusive option that meets the needs of communities and regions in generating actionable, sustainable economic development outcomes.

### References

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*Additional Resources*

Edward Lowe Foundation

International Business Innovation Association

Seed Accelerator Rankings Project